The Real Estate ANALYST

MARCH 30
1956

Volume XXV

Number 12

Real Estate Economists, Appraisers and Counselors

REGIONAL REAL ESTATE AND MORTGAGE ACTIVITY

THE charts on the following four pages show the variations in real estate and mortgage activity for the eight major regions of the United States. The real estate activity figures are charted above and below the normal line for each region. Remember that each region has its own normal line which is based on the long-range average of the past. Therefore, the West Coast Region, with a long history of high-volume real estate sales, has a much higher normal line than has the New England Region, where the actual number of sales has been much lower. The fact that the West Coast Region is below normal, while the New England Region is comfortably above normal, is a result of the difference in the level of the historic normal line. It does not mean that more sales are taking place in New England than on the West Coast.

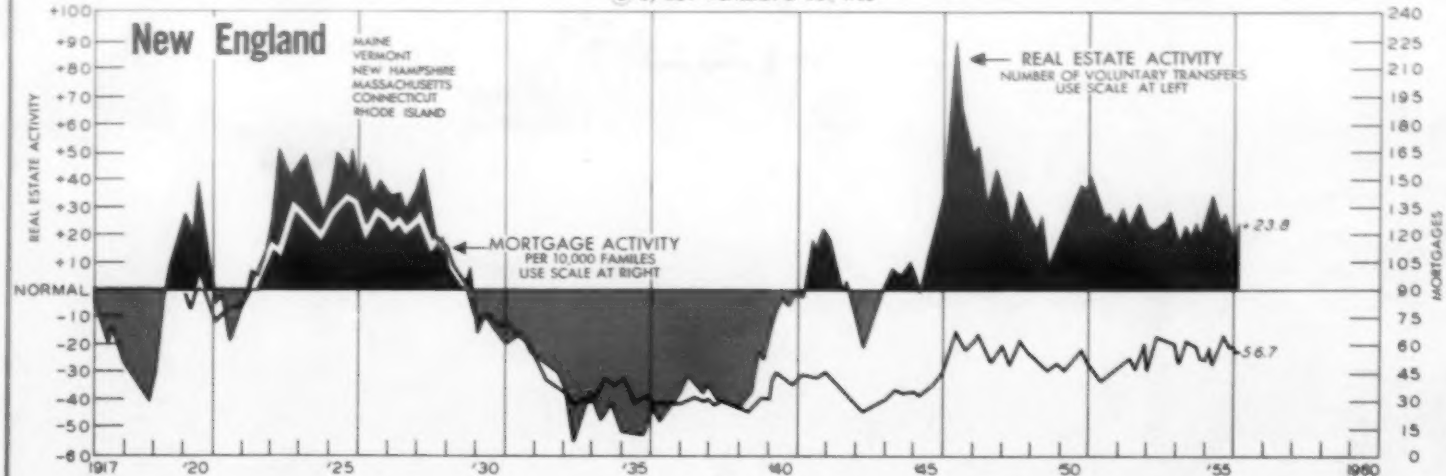
The regional real estate activity charts show that the New England and West Central Regions have enjoyed protracted periods of stable activity, whereas the activity in the Southwest and on the West Coast has been erratic and below normal for the past few years.

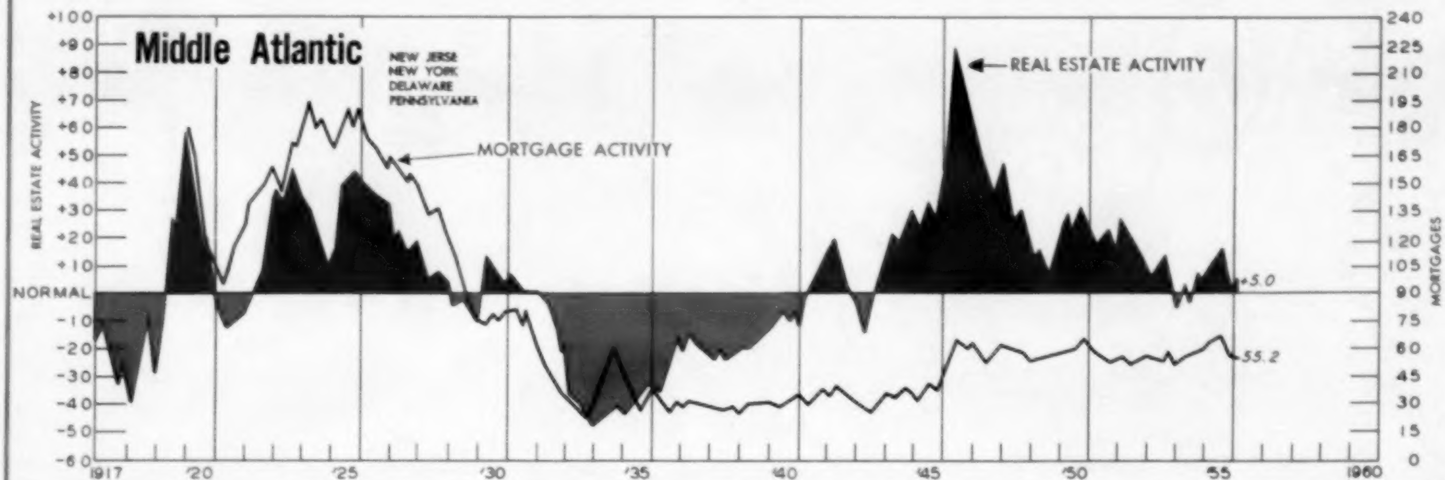
It may sound strange to say that real estate activity in these two regions is unstable and below normal in view of their very high sales volume. However, the real estate sales figures are indexed on the basis of the number of nonfarm families in each region, and since the Southwest and West Coast populations have been growing so rapidly, real estate sales have evidently lagged behind. This accounts for the downward trend in their real estate activity line, and their high-level normal accounts for the fact that real estate activity has dropped below it.

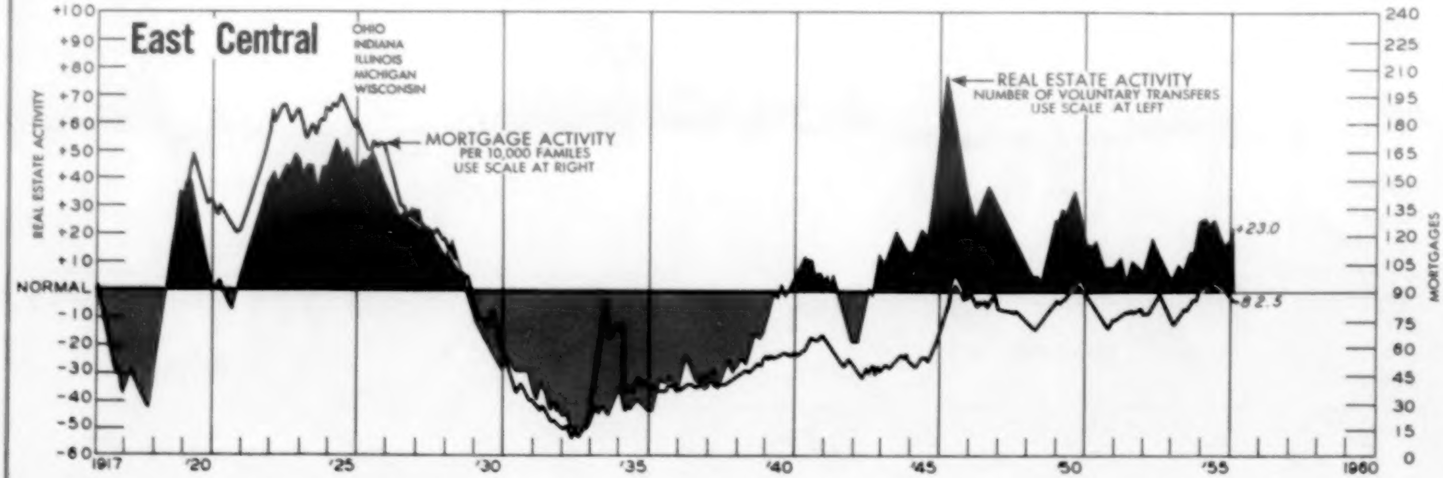
Mortgage activity also varies widely from one region to the other. It is shown on the basis of the number of mortgages per 10,000 families per month. The present rate on the West Coast of 113 indicates an annual rate of 1,356. This means that in the course of a year there will be 1,356 mortgages recorded for each 10,000 nonfarm families there, or about one out of seven. Comparisons between the number of mortgages and the number of transfers show about what you would expect. The number of mortgages has been coming nearer to the number of transfers each year since 1945.

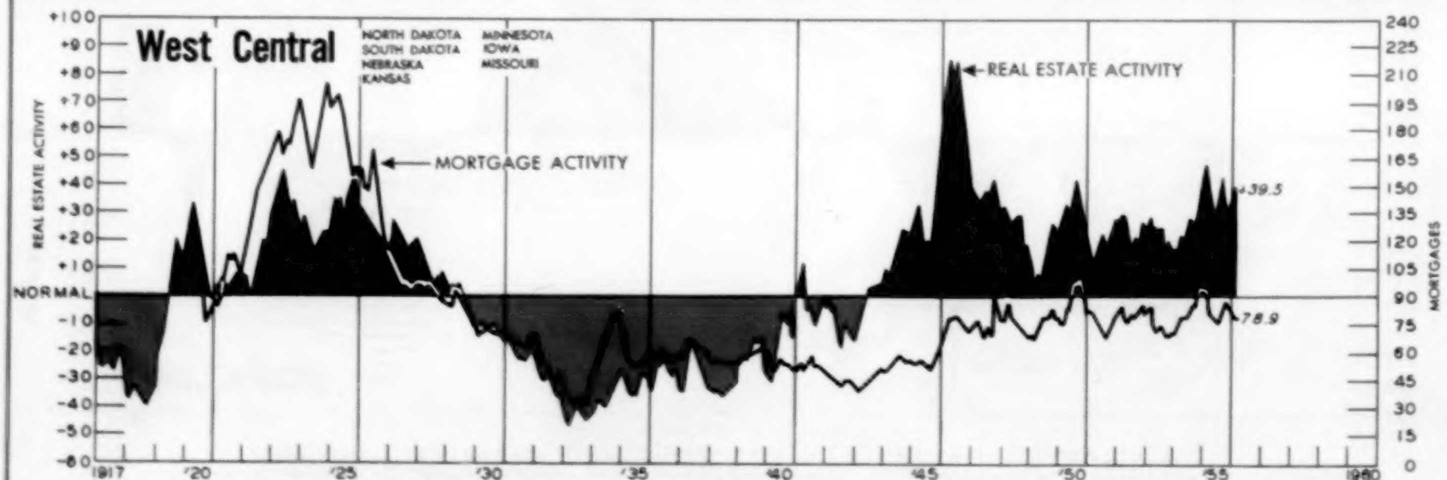
In the early postwar years there were large numbers of cash sales. However, these have been diminishing each year and some secondary financing is now included in the figures.

REGIONAL PATTERNS OF REAL ESTATE & MORTGAGE ACTIVITY

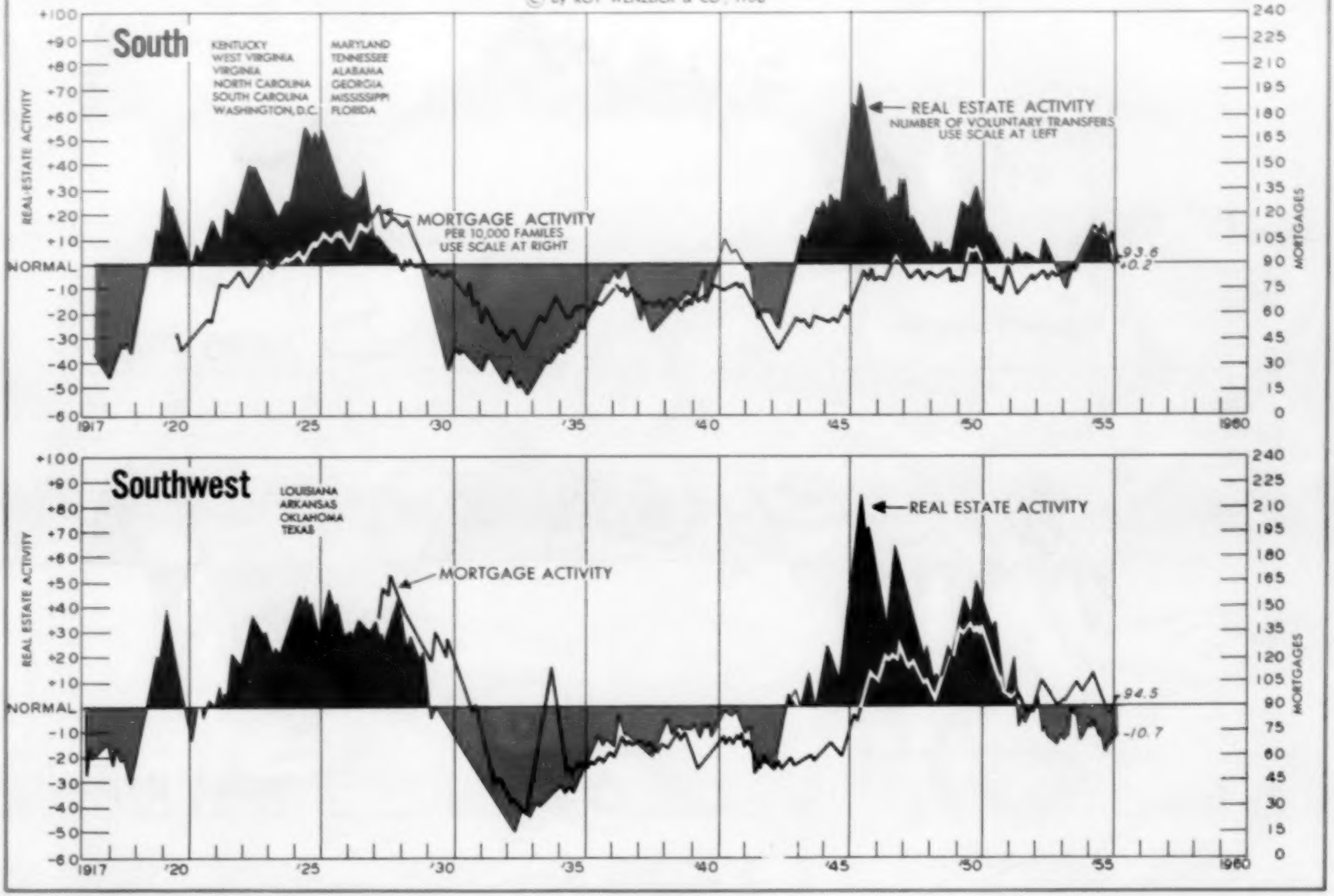


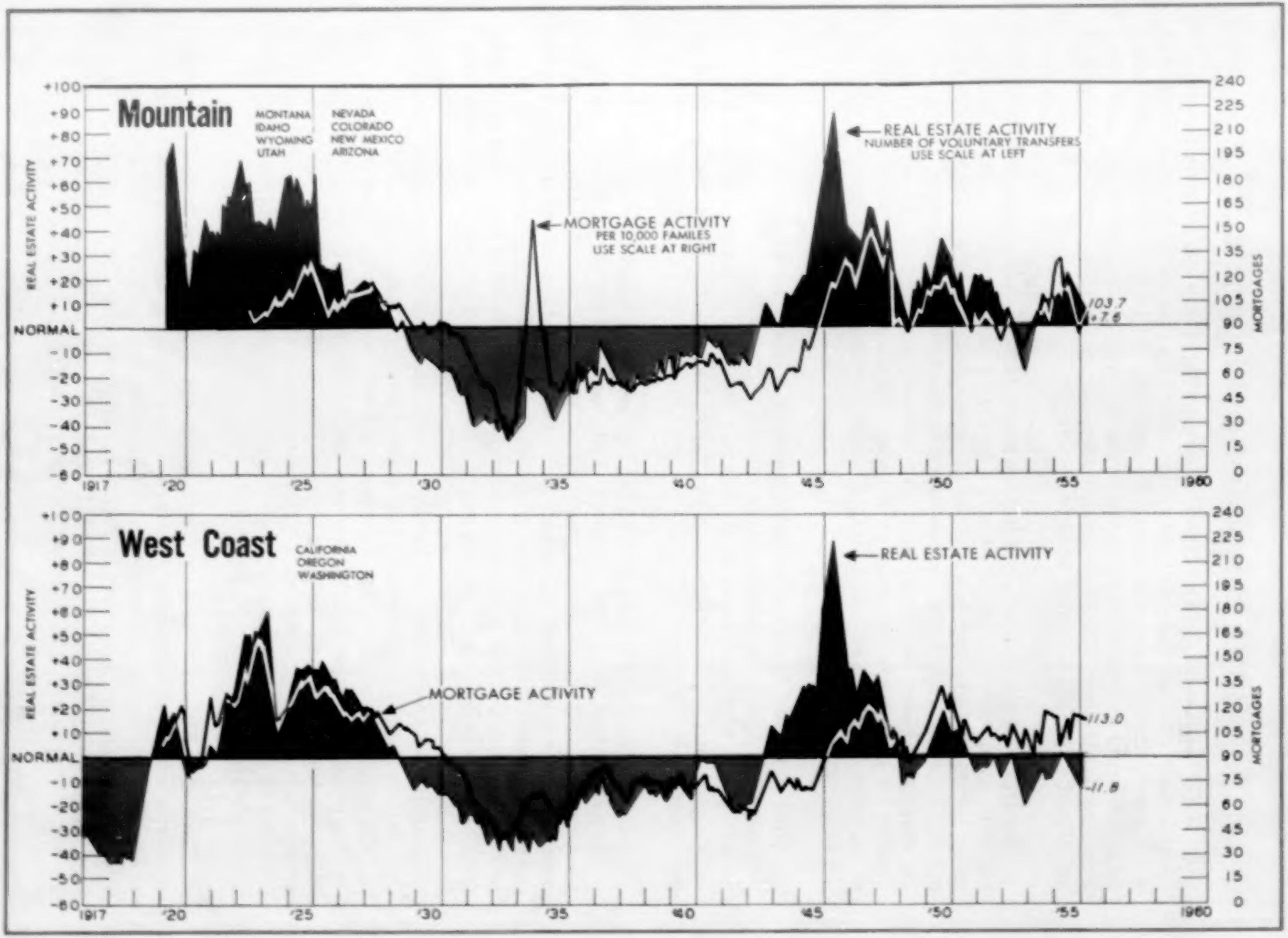



East Central
OHIO
INDIANA
ILLINOIS
MICHIGAN
WISCONSIN
MORTGAGE ACTIVITY
PER 10,000 FAMILIES
USE SCALE AT RIGHT
REAL ESTATE ACTIVITY
NUMBER OF VOLUNTARY TRANSFERS
USE SCALE AT LEFT
REAL ESTATE ACTIVITY
MORTGAGES
NORMAL
+23.0
82.5
1917
'20
'25
'30
'35
'40
'45
'50
'55
1960


West Central
NORTH DAKOTA
SOUTH DAKOTA
NEBRASKA
KANSAS
MINNESOTA
IOWA
MISSOURI
MORTGAGE ACTIVITY
REAL ESTATE ACTIVITY
REAL ESTATE ACTIVITY
MORTGAGES
NORMAL
+39.5
78.9
1917
'20
'25
'30
'35
'40
'45
'50
'55
1960

REGIONAL PATTERNS OF REAL ESTATE & MORTGAGE ACTIVITY




Mountain
MONTANA
IDAHO
WYOMING
UTAH
NEVADA
COLORADO
NEW MEXICO
ARIZONA
REAL ESTATE ACTIVITY
NUMBER OF VOLUNTARY TRANSFERS
USE SCALE AT LEFT
MORTGAGE ACTIVITY
PER 10,000 FAMILIES
USE SCALE AT RIGHT
103.7
+7.6
REAL ESTATE ACTIVITY
MORTGAGES
NORMAL
West Coast
CALIFORNIA
OREGON
WASHINGTON
REAL ESTATE ACTIVITY
MORTGAGE ACTIVITY
113.0
-11.8
1917
'20
'25
'30
'35
'40
'45
'50
'55
1960

LITTLE DANGER OF OVERBUILDING

ALTHOUGH total dollar volume of new construction has been in a steep and steady rise for the past 10 years, there appears to be little danger of overbuilding, except in isolated locations. This is of course predicated on a continued high level of business activity. Any protracted slump in general business would bring with it a contraction in demand among users of all types of space and a surplus would be readily apparent.

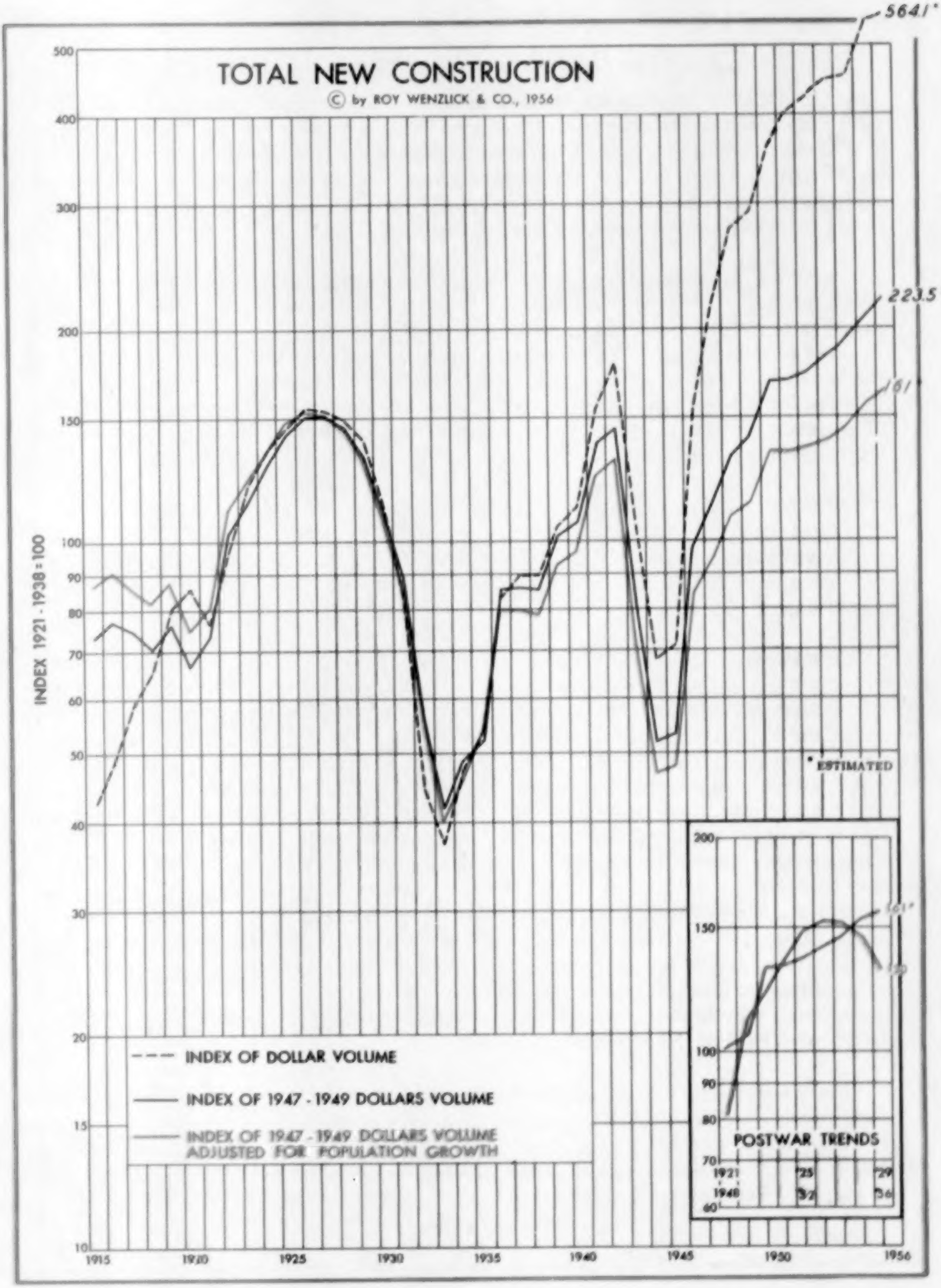
Barring that eventuality, and it does seem remote, any danger of overbuilding is probably several years away. Admittedly, any index of construction demand is difficult to compile and even the best of them would probably have significant shortcomings. The indexes we have used on the following charts are for the most part based on annual dollar volume of construction. In order to compensate for changes in the price level these indexes are also expressed in terms of constant dollars (1947-49 average); another refinement is added to allow for the increasing population.

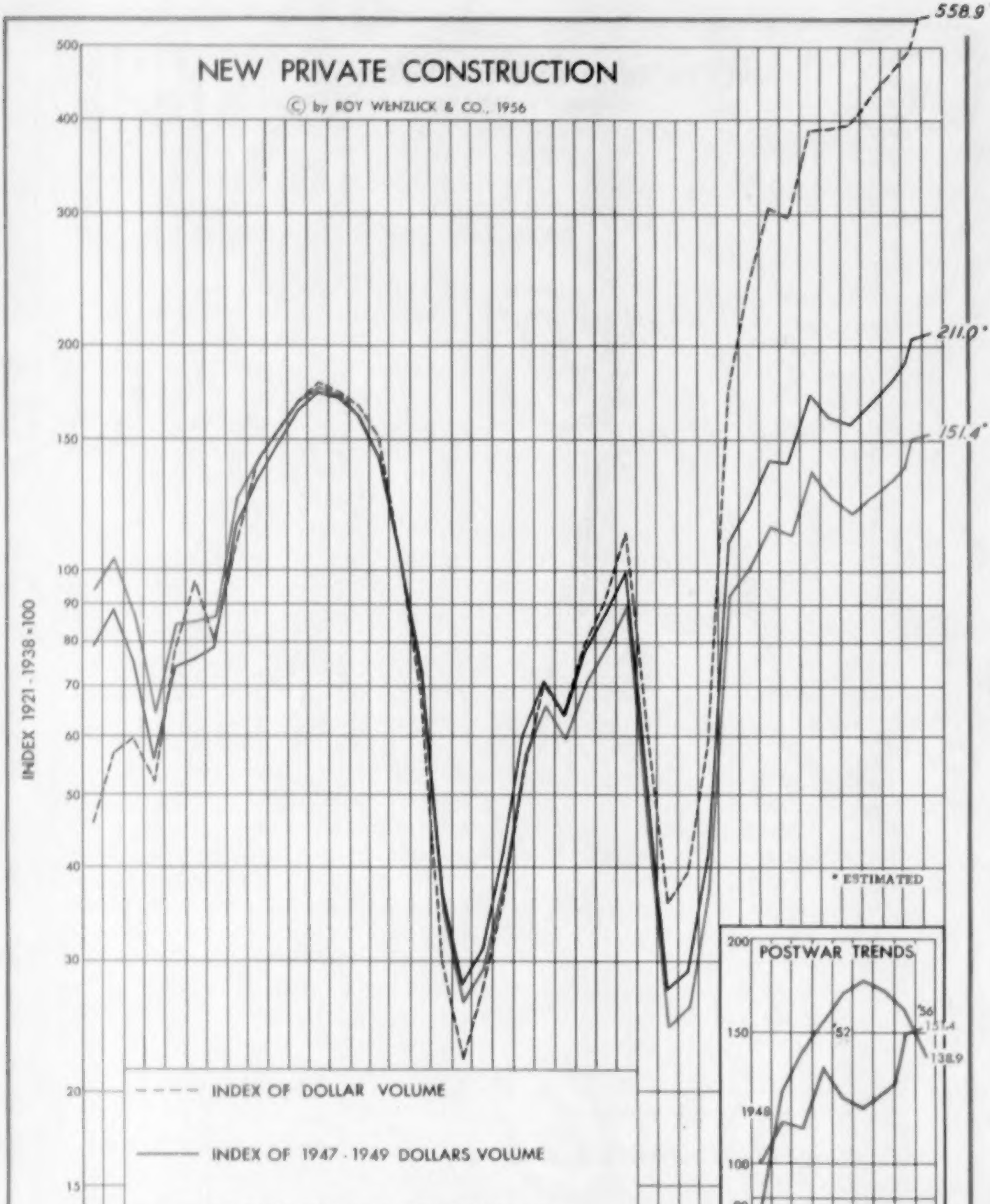
Most of the charts on the following pages, therefore, have three lines on them. The first line shows the annual dollar volume. The second line shows the annual dollar volume expressed in 1947-49 dollars. The third line shows the annual dollar volume (in 1947-49 dollars) on a per capita basis. This third line is the most significant one.

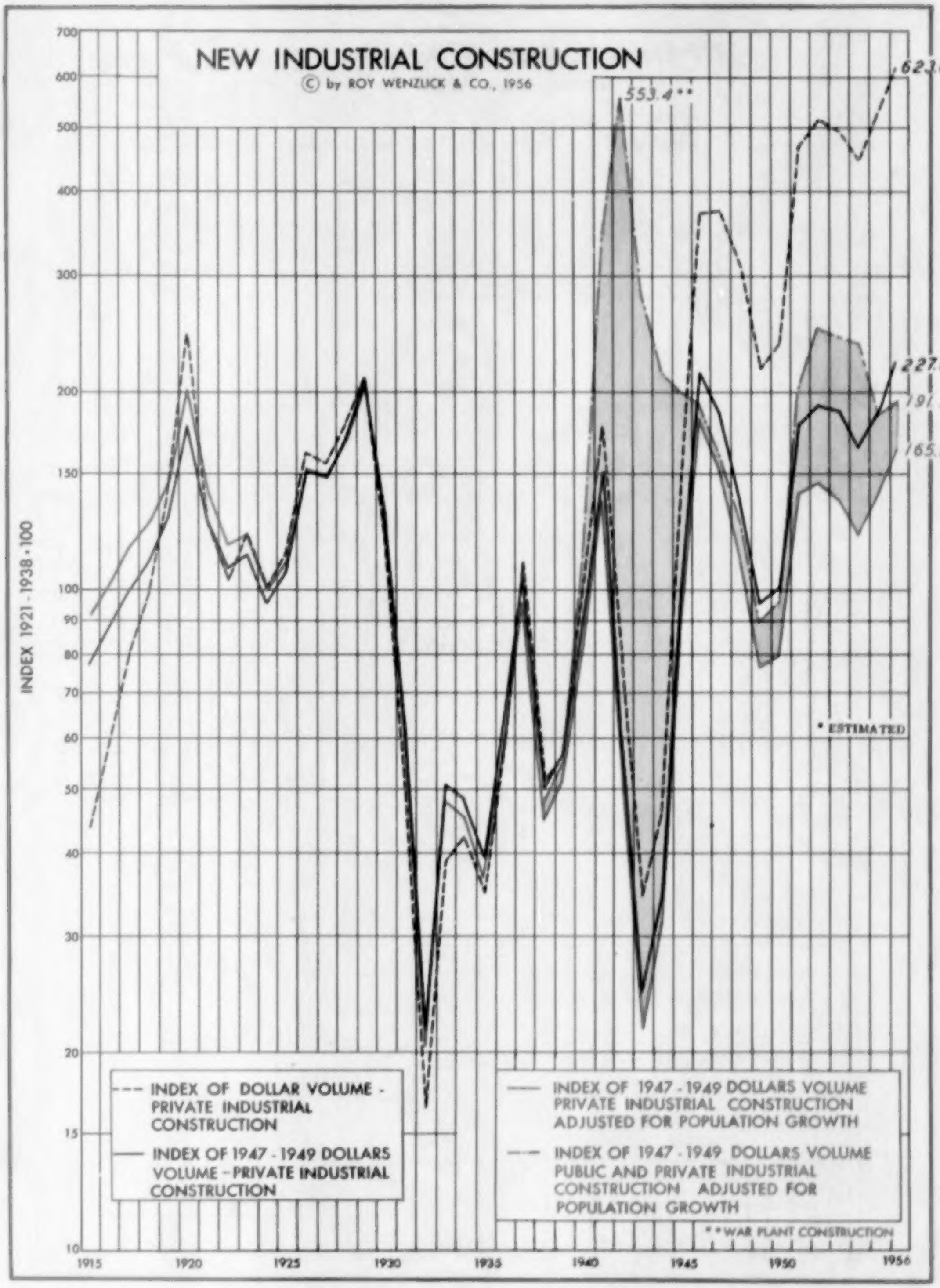
Admittedly, these charts are not the full answer. There are several factors in the picture that they do not consider. For example, take the chart on new office, warehouse and loft construction (page 104). The red line shows that the present boom has consistently run far behind the boom of the 1921-29 period. However, during this boom there have been practically no loft buildings erected. Therefore, a true comparison would be the amount of office building and warehouse construction of this boom with the amount of office building and warehouse construction of the last boom. Unfortunately, the figures aren't available to make such an analysis. Nevertheless, we believe, and think that this chart partly bears us out, that we are at least several years away from a situation similar to the one in 1929 insofar as office building construction is concerned. There will be some overbuilding, of course. The figures from Pittsburgh indicate that some of the buildings there are experiencing more difficulty than those in cities with little or no office building construction. However, there is a good chance that most of the modern buildings will pull through in good shape unless the situation is further aggravated by more new building there.

Look at the chart on new private commercial construction (page 105). This covers construction of stores, restaurants and garages, and shows that this type of construction is also running far behind its record level of the 1921-29 period. One shortcoming of this chart is that it fails to consider the change in the types of stores. For example, during 1921-29 there were no taverns or liquor stores

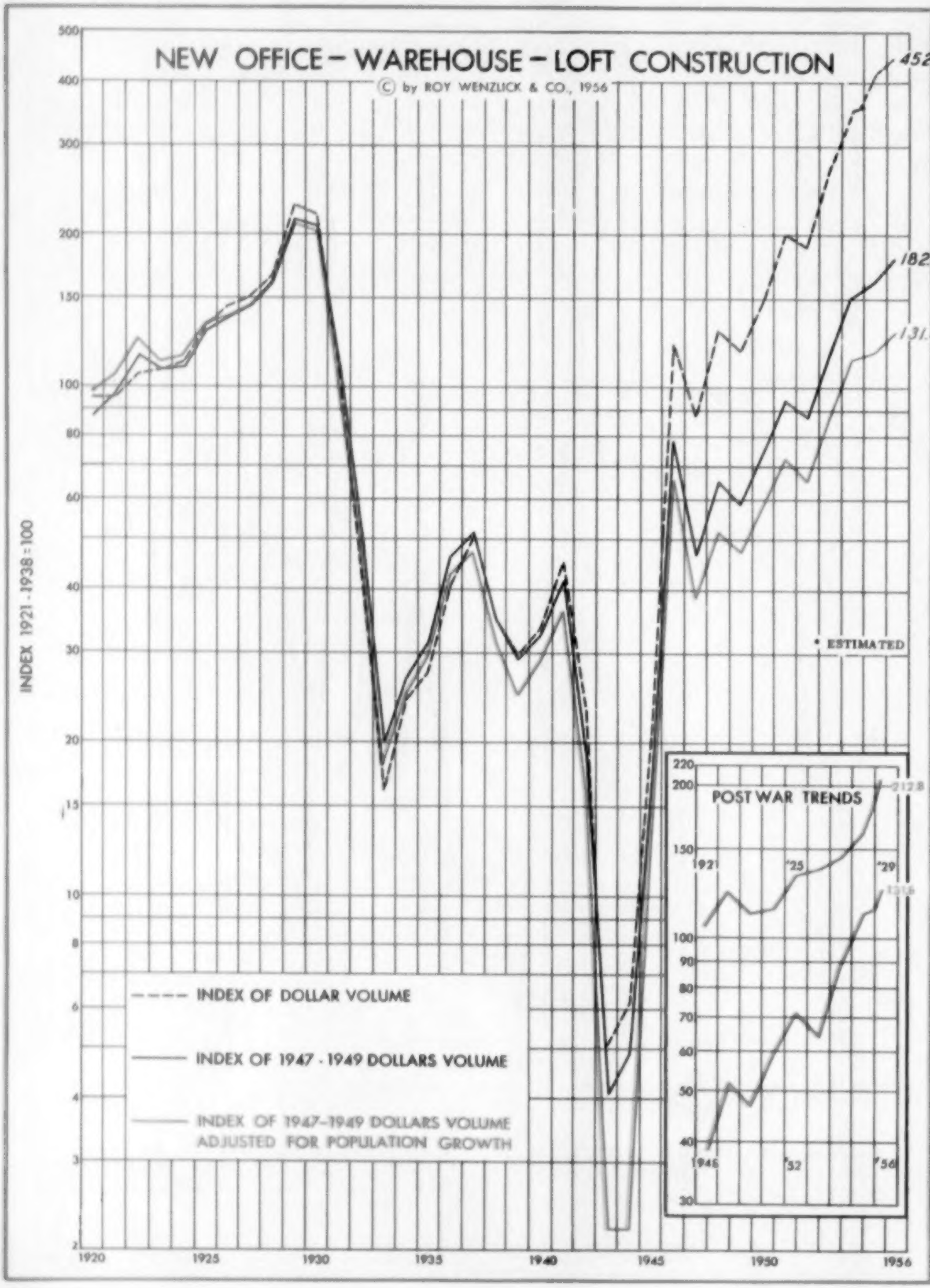
(cont. on page 109)

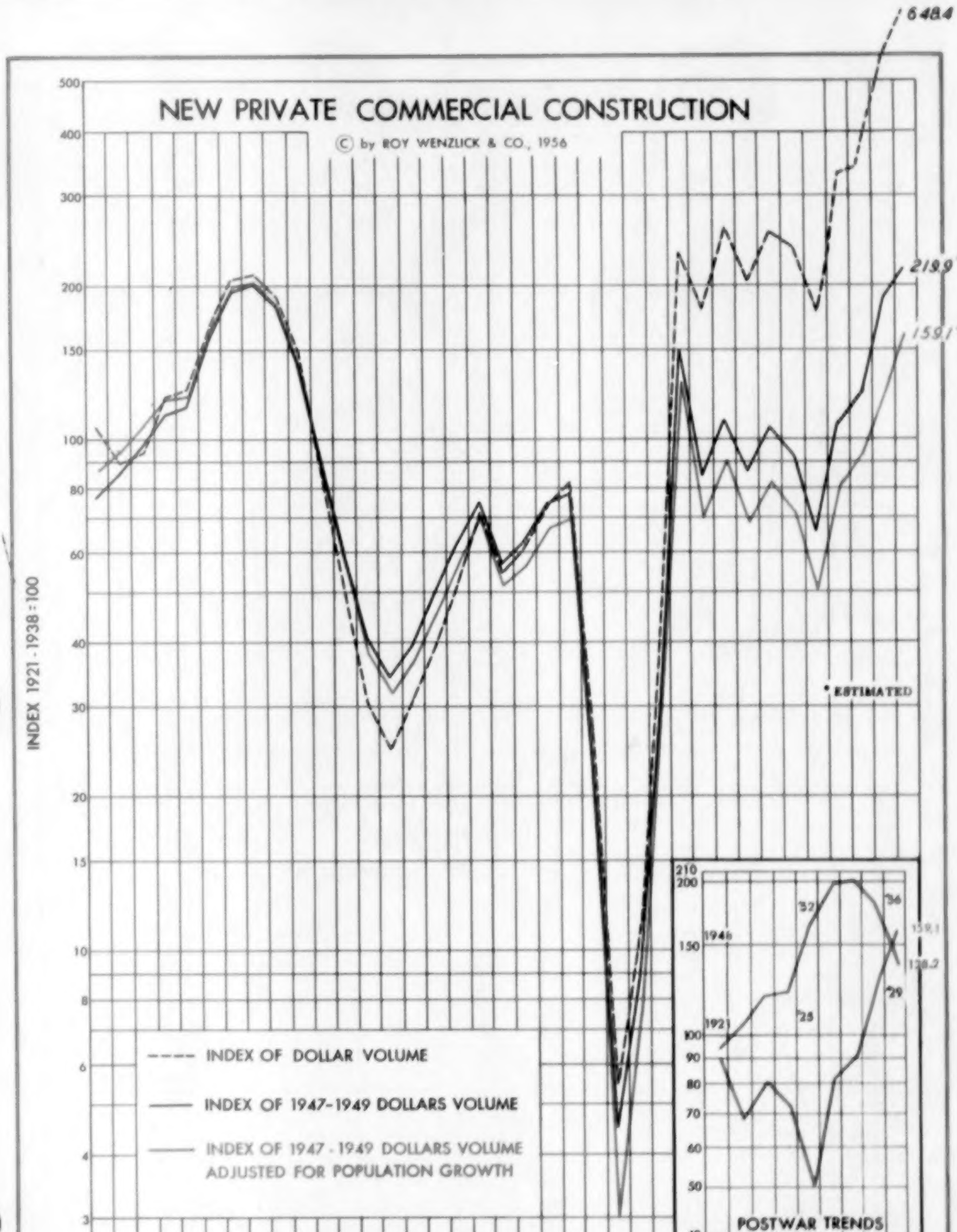

TOTAL NEW CONSTRUCTION
© by ROY WENZLICK & CO., 1956
INDEX 1921 - 1938 = 100
564.1*
223.5*
161*
*ESTIMATED
INDEX OF DOLLAR VOLUME
INDEX OF 1947 - 1949 DOLLARS VOLUME
INDEX OF 1947 - 1949 DOLLARS VOLUME ADJUSTED FOR POPULATION GROWTH
POSTWAR TRENDS
1921 '25 '29
1948 '52 '56
1915 1920 1925 1930 1935 1940 1945 1950 1956

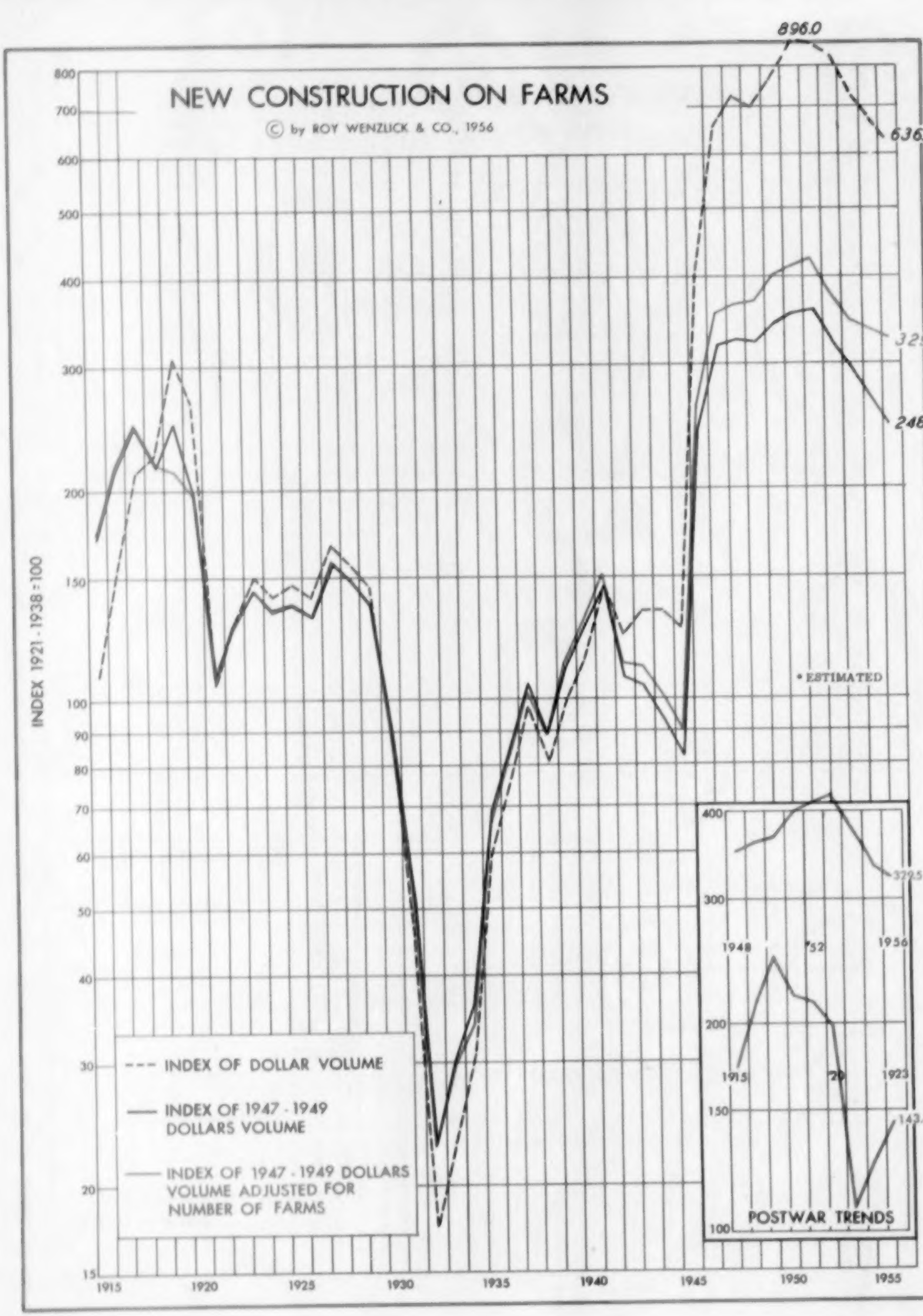

NEW PRIVATE CONSTRUCTION
© by ROY WENZLICK & CO., 1956
INDEX 1921-1938=100
558.9*
211.0*
151.4*
* ESTIMATED
POSTWAR TRENDS
INDEX OF DOLLAR VOLUME
INDEX OF 1947-1949 DOLLARS VOLUME
INDEX OF 1947-1949 DOLLARS VOLUME ADJUSTED FOR POPULATION GROWTH

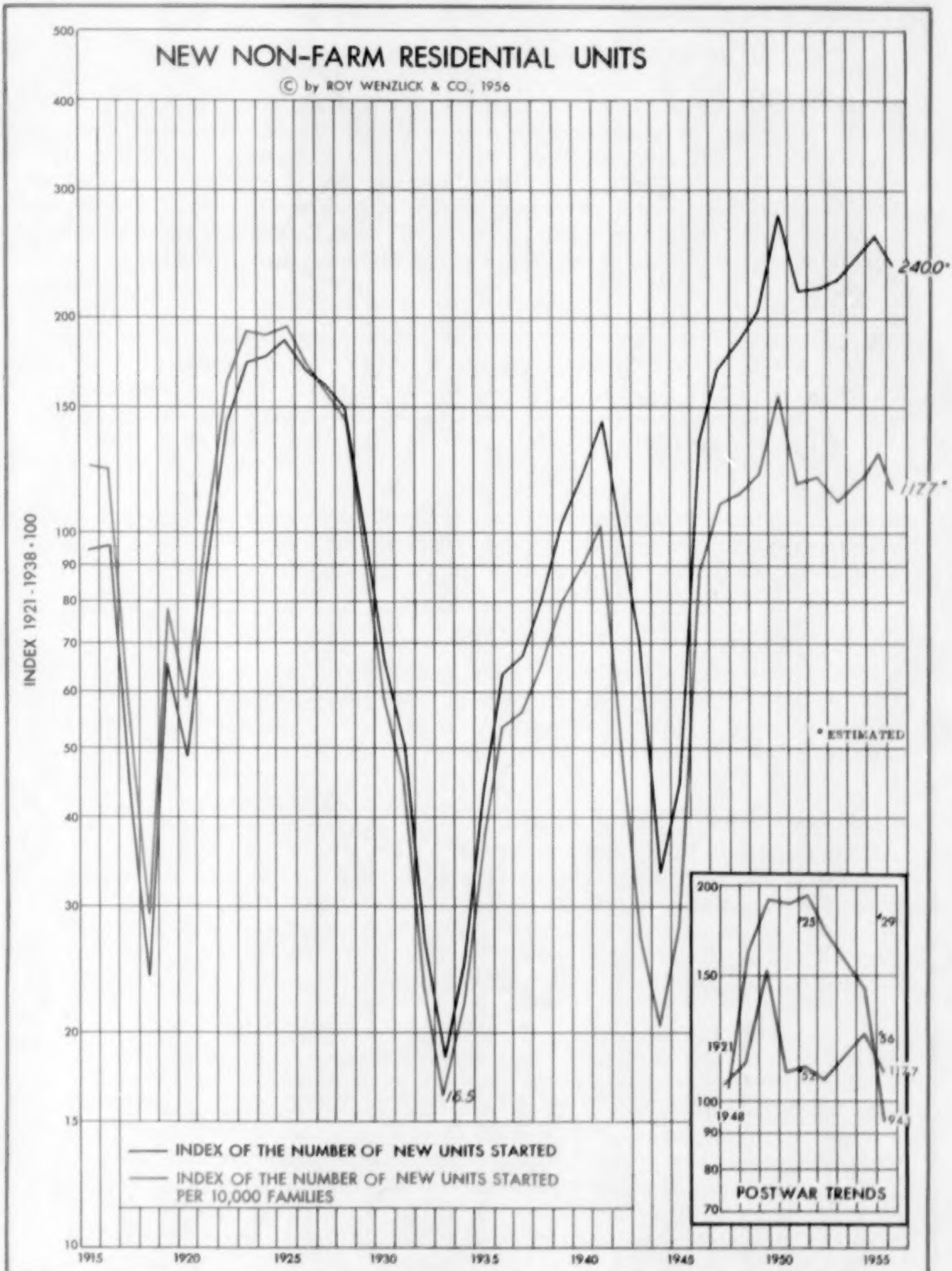


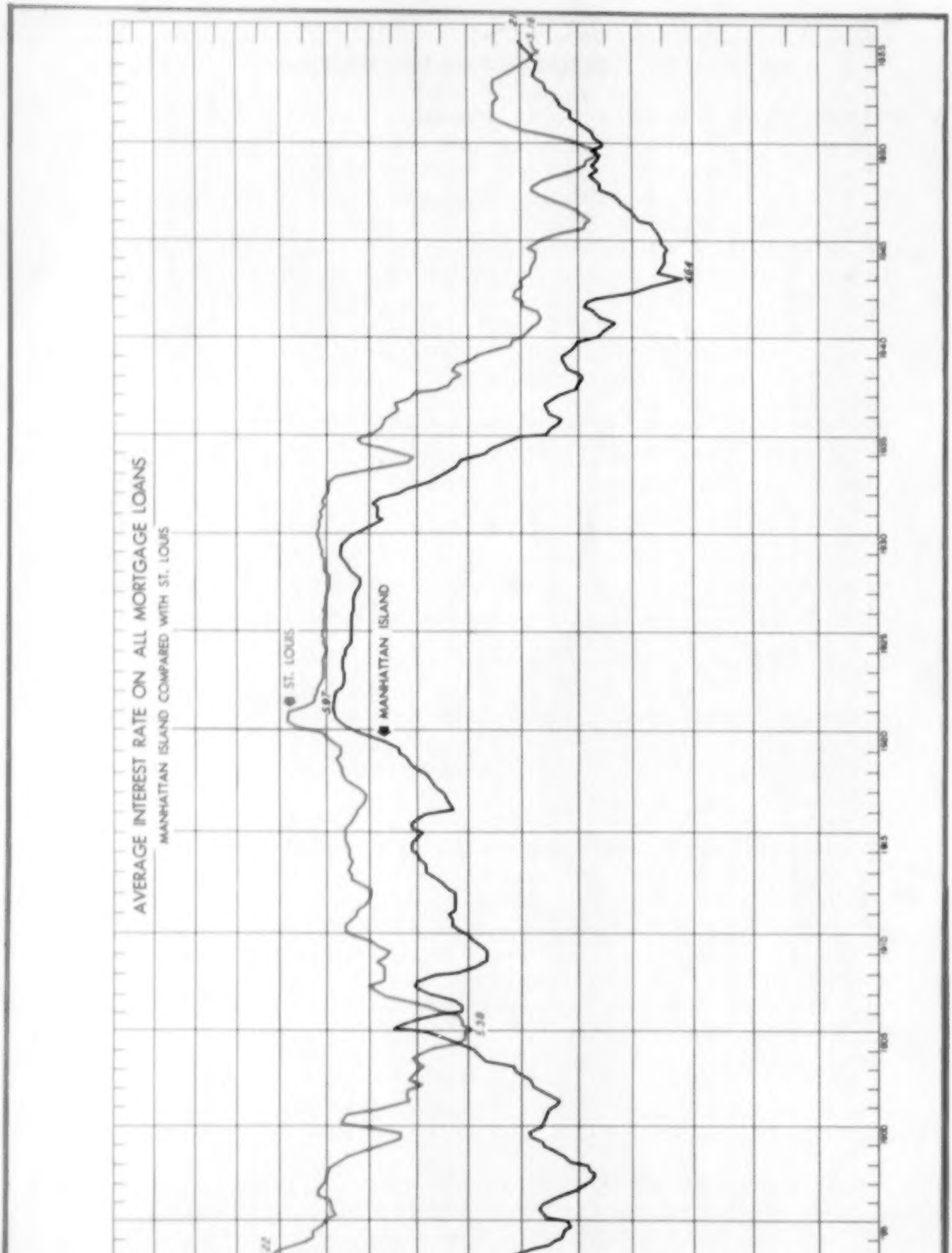
NEW INDUSTRIAL CONSTRUCTION
© by ROY WENZLICK & CO., 1956
553.4**
623.6*
227.1*
191.7*
165.1*
* ESTIMATED
INDEX 1921-1938=100
INDEX OF DOLLAR VOLUME - PRIVATE INDUSTRIAL CONSTRUCTION
INDEX OF 1947-1949 DOLLARS VOLUME - PRIVATE INDUSTRIAL CONSTRUCTION
INDEX OF 1947-1949 DOLLARS VOLUME PRIVATE INDUSTRIAL CONSTRUCTION ADJUSTED FOR POPULATION GROWTH
INDEX OF 1947-1949 DOLLARS VOLUME PUBLIC AND PRIVATE INDUSTRIAL CONSTRUCTION ADJUSTED FOR POPULATION GROWTH
** WAR PLANT CONSTRUCTION


NEW OFFICE – WAREHOUSE – LOFT CONSTRUCTION
© by ROY WENZLICK & CO., 1956
INDEX 1921-1938=100
INDEX OF DOLLAR VOLUME
INDEX OF 1947-1949 DOLLARS VOLUME
INDEX OF 1947-1949 DOLLARS VOLUME ADJUSTED FOR POPULATION GROWTH
* ESTIMATED
452.0*
182.8*
131.8
POSTWAR TRENDS
1920
1925
1930
1935
1940
1945
1950
1956


NEW PRIVATE COMMERCIAL CONSTRUCTION
© by ROY WENZLICK & CO., 1956
INDEX 1921-1938=100
648.4
219.9*
159.1*
*ESTIMATED
INDEX OF DOLLAR VOLUME
INDEX OF 1947-1949 DOLLARS VOLUME
INDEX OF 1947-1949 DOLLARS VOLUME ADJUSTED FOR POPULATION GROWTH
POSTWAR TRENDS
1946
1921
'32
'36
'25
'29
159.1
128.2
1920
1925
1930
1935
1940
1945
1950
1955


NEW CONSTRUCTION ON FARMS
© by ROY WENZLICK & CO., 1956
INDEX 1921 - 1938 = 100
896.0
636.8*
329.5*
248.5*
* ESTIMATED
--- INDEX OF DOLLAR VOLUME
INDEX OF 1947 - 1949 DOLLARS VOLUME
INDEX OF 1947 - 1949 DOLLARS VOLUME ADJUSTED FOR NUMBER OF FARMS
POSTWAR TRENDS
1948
'52
1956
1915
'20
1923
329.5
143.6
1915
1920
1925
1930
1935
1940
1945
1950
1955


NEW NON-FARM RESIDENTIAL UNITS
© by ROY WENZLICK & CO., 1956
INDEX 1921-1938 = 100
2400*
1177*
16.5
* ESTIMATED
INDEX OF THE NUMBER OF NEW UNITS STARTED
INDEX OF THE NUMBER OF NEW UNITS STARTED PER 10,000 FAMILIES
POSTWAR TRENDS
1921
1948
'25
'29
'52
'36
1177
943
1915
1920
1925
1930
1935
1940
1945
1950
1955


AVERAGE INTEREST RATE ON ALL MORTGAGE LOANS
MANHATTAN ISLAND COMPARED WITH ST. LOUIS
ST. LOUIS
MANHATTAN ISLAND
6.22
5.97
5.38
4.64
AVERAGE INTEREST RATES

LITTLE DANGER OF OVERBUILDING

(cont. from page 100)

erected. On the other hand, the present boom has seen tremendous expansion in the number of bowling alleys, gift shops, appliance stores, radio and TV service stores, and automobile sales agencies. Despite some new uses and tremendous expansion in others, construction in this field has lagged that of the twenties by a large amount. On the other hand, a good many of today's stores are much more efficient than those constructed 25 to 30 years ago, and coupled with their added accessibility allow a given amount of space to serve a larger number of customers.

Aside from these imponderables, it seems to us that in the commercial field we have not reached a point of nationwide overbuilding, nor are we apt to at the present rate.

There is no implication in these charts that spot overbuilding cannot occur. In fact, local overbuilding of commercial and office buildings has occurred in a number of cities. In these two fields the builder and the lender should study their local situation very carefully, much more so than during the last 5 or 6 years. Generally speaking, however, overbuilding in the early stages at least is going to hurt inaccessible and obsolete properties before it will be felt by the modern and well-located properties.

COMPARISONS IN MORTGAGE INTEREST RATES

FOR the past 10 years mortgage interest rates in Manhattan have been in a strong, steady climb. Despite this they are still low when compared with what they have been in the past. Although their present average level of 5.21% seems high by recent standards, it is lower than it has been during most of the 1893-1955 period.

A comparison of the average Manhattan interest rate with that of St. Louis is shown on page 108. The figures for this chart are compiled from mortgage recordings and, therefore, do not reflect discounts or points paid for making the loan. Moreover, this chart contains a time lag since it is usually several months between the time the loan is negotiated and the time the mortgage is recorded. We think that as a general rule the time lag in Manhattan will be considerably longer than in most other cities. This is simply because of the size of the average loan there.

The St. Louis rate is made up almost entirely of loans on single-family homes, and in recent years these loans have been on the older residences. On the other hand, Manhattan loans are almost all made on very large properties and for substantial amounts. This, plus the fact that many of the more important lenders are located on Manhattan, has tended toward keeping interest rates there lower than in areas where the lending is confined largely to small properties.

There are other factors that have worked to keep interest rates low on the

Island. One is the relatively low risk. If there is any spot on earth that can be called a prime real estate location, it is Manhattan Island. Another factor is the ease with which the loans are serviced and the credit rating of the typical borrower.

Although Manhattan rates are still low, they have finally pushed past the St. Louis rate for the first time in over 50 years. The St. Louis rate is probably fairly typical of the rate in most large cities. Being made up predominantly of loans on residences, it naturally includes a considerable number of FHA-VA loans. Consequently, it has been under steady downward pressure since the middle thirties. During the postwar period its changes have been strongly influenced by the attractiveness of the FHA-VA loans. When lenders were seeking them, the average rate tended to move down because of the increasing number of low interest rate loans. When lenders were not seeking them, the reverse was true.